DOCUMENT RESUME

ED 426 654 HE 031 803

TITLE	Student Loans: Improvements in the Direct Loan Consolidation Process.
INSTITUTION	General Accounting Office, Washington, DC. Health, Education, and Human Services Div.
REPORT NO	GAO/HEHS-99-19R
PUB DATE	1998-11-10
NOTE	26p.
AVAILABLE FROM	U.S. General Accounting Office, P.O. Box 37050, Washington, DC 20013; Tel: 202-512-6000; Fax: 202-512-6061 (first copy free, additional copies $2).
PUB TYPE	Opinion Papers (120) -- Reports - Evaluative (142)
EDRS PRICE	MF01/PC02 Plus Postage.
DESCRIPTORS	Efficiency; *Federal Aid; Federal Programs; Higher Education; *Loan Repayment; Organizational Effectiveness; Program Administration; *Student Loan Programs
IDENTIFIERS	Family Education Loan Program; Federal Direct Student Loan Program; *Student Loan Consolidation Program

ABSTRACT

This report describes progress in addressing problems identified earlier in the process of consolidating student loans under the William D. Ford Federal Direct Loan Program (FDLP) or the Federal Family Education Loan Program (FFELP). Consolidation loans allow borrowers to extend their repayment periods and may combine loans under either or both programs. The evaluation involved interviews with four FFELP lenders about their experiences with the Department of Education (ED) and its contractor for loan consolidations, analysis and collection of data on borrower experiences under the original and updated (as of December 1997) FDLP servicing system, and analysis of ED data on consolidation application processing and data transmission. The four lenders reported that the consolidation process has improved, with fewer duplicate requests and incorrect payments. Progress in resolving problems in transmitting data to the FDLP servicing system and in time needed to process consolidation applications was also reported. Attached enclosures include detailed data on application processing time and the formal response of the Department of Education, which notes additional changes the Department has made or plans to make to the consolidation process. (DB)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

HE

GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

ED 426 654

B-281251

November 10, 1998

The Honorable William F. Goodling
Chairman, Committee on Education
and the Workforce
House of Representatives

The Honorable Howard P. McKeon
Chairman, Subcommittee on Postsecondary
Education, Training, and Lifelong Learning
Committee on Education and the Workforce
House of Representatives

The Honorable Peter Hoekstra
Chairman, Subcommittee on Oversight
and Investigations
Committee on Education and the Workforce
House of Representatives

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION
CENTER (ERIC)
☑ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

Subject: Student Loans: Improvements in the Direct Loan Consolidation Process

Students can generally borrow for their postsecondary education through two principal federal loan programs, the William D. Ford Federal Direct Loan Program (FDLP) or the Federal Family Education Loan Program (FFELP).[1] Under FDLP, the government provides capital for loans made to student borrowers, schools make the loans on behalf of the government, and a contractor services and collects loan repayments. For an FFELP loan, in contrast, a lender, usually from the private sector, provides loan capital, makes and services the loan, and collects loan repayments.[2] The federal government guarantees, or insures, FFELP loans against default.

HE 031 823

[1]In academic year 1997-98, federal student loans made through FDLP amounted to about $11 billion and those through FFELP about $22 billion.

[2]As used in this report, "lender" refers to an entity that makes, holds, services, or collects student loans.

BEST COPY AVAILABLE

Consolidation loans, which allow borrowers to extend their repayment periods and make single monthly payments that are usually lower than the combined total payments on their individual loans, are available through both programs. FFELP lenders may make FFELP consolidation loans, while the Department of Education operates the FDLP consolidation program through a contractor, Electronic Data Systems (EDS). Consolidation loans made through either program may include underlying loans from either program–that is, both FFELP and FDLP loans may be consolidated into a new FDLP consolidation loan, or both may be consolidated into a new FFELP consolidation loan. Total consolidation loan volume for FFELP and FDLP was about $5 billion in fiscal year 1997.

In the FDLP consolidation process, if FFELP loans are being consolidated, EDS sends a form to each FFELP lender holding one or more of the borrower's loans, to verify the balance owed on each loan. EDS receives this information back from each of the lenders, sends a promissory note to the borrower, receives the signed note, pays off each lender for the underlying FFELP loans, and transmits data on the completed consolidation loan to the FDLP servicing system. If the payment to the lender is too high, the lender refunds the difference to EDS, and this refunded amount is credited to the borrower through the FDLP servicing system. In a typical consolidation, the payment to the lender is slightly higher than the amount owed, to ensure that the borrower's account with the lender is fully paid.

In April 1998, we reported on some of the problems in the FDLP consolidation process, specifically on the process of incorporating FFELP loans into an FDLP consolidation loan.[3] Some of these problems had earlier led to a large and growing inventory of unprocessed loan consolidation applications, and Education shut down the FDLP consolidation program to new borrower applicants from August 1997 until December 1, 1997. We found that lenders holding underlying FFELP loans often faced delays and repeated requests from EDS for loan balance information. These problems sometimes led to inaccurate payments to the lenders for their loans, some of which were overpayments much larger than the small amount involved in typical consolidations. Furthermore, the transmission of data from EDS' system to the FDLP servicing system had flaws. When lender payments to EDS were too high and the lenders made refunds, these refunds were not always transmitted successfully to the FDLP servicing

---

[3]Direct Student Loans: Efforts to Resolve Lenders' Problems With Consolidations Are Under Way (GAO/HEHS-98-103, Apr. 21, 1998).

system, and thus borrowers' account balances appeared to be too high. We noted improvements that Education and EDS were making to the process, many of which took effect with the December 1997 reopening and appeared to move in the right direction, but we concluded that it was too early to tell whether these changes had actually fixed the problems we found.

On July 1, 1998, new interest rates went into effect that made FDLP consolidation loans less expensive than FFELP loans for borrowers. Because of continuing concern about the program and the possibility of a surge in new applications in response to the interest rate change, you asked us to analyze whether some of the problems we found in our earlier work were still occurring. Specifically, we agreed to answer the following questions:

- Do FFELP lenders believe that EDS' consolidation processing has improved since the December 1, 1997, reopening of the FDLP consolidation system to new applications?

- To what extent have problems in data transmission between EDS and the FDLP servicing system been resolved?

- How quickly has EDS been processing consolidation applications for borrowers who applied after December 1, 1997, and does Education believe EDS could promptly process a substantially greater inflow of applications?

To answer these questions, we interviewed the four FFELP lenders we included in our April study about their experiences with Education and EDS since the December 1, 1997, reopening. The four lenders are among the 40 largest FFELP loan holders by loan volume–two of them are among the 10 largest–and they provide different perspectives because of the services they provide, such as servicing their own loans and performing servicing functions for other lenders. We looked at updated FDLP servicing system data for a set of borrowers we included in our April study whose account balances were inflated because of delayed transmission of refund data to see if these refunds had been credited to the system. We also gathered similar data on a second set of borrowers to see if their accounts experienced the same problems. These borrowers, whom lenders selected for us on the basis of overpayments they had received for the borrowers, were not representative of all borrowers but were similar to the borrowers whose account balances we found to be incorrect in our April study. Finally, we reviewed data that Education collects on application processing and discussed changes in consolidation application processing and data transmission

with Education officials. We conducted our review from June to September 1998 in accordance with generally accepted government auditing standards.

In summary, the four lenders we spoke to said that they believe the consolidation process has improved. They generally reported receiving fewer duplicate requests for information from EDS and fewer incorrect payments for their loans than before the shutdown, and the incorrect payments they did receive were for smaller amounts. They also said that their communications with Education and EDS have improved.

Education and EDS have also made progress toward resolving problems in transmitting data to the FDLP servicing system. According to EDS officials, more than 75 percent of transactions that had been rejected during their transmission between the EDS system and the FDLP servicing system as of June 1998–transactions such as the refunds we noted that were not credited to borrowers–had been successfully transmitted to the FDLP servicing system by September 1998. Further, our review of servicing system accounts for the two sets of borrowers we examined showed that many corrections have been made, although not all transactions were being promptly transmitted. For some borrowers in the first set, those included in our April study, some transactions had still not been transmitted successfully to the servicing system. The account of one of these borrowers showed a balance that, according to the servicing system, was $19,000 higher than it should have been, 15 months after EDS recorded the transaction that should have corrected this error. Most borrowers in the second set had refunds transmitted to their accounts in 2 to 6 weeks. However, several of these borrowers–who applied for a consolidation loan after the December 1, 1997, reopening–had not had all their transactions successfully transmitted, even though some of these transactions took place more than 5 months ago.

Finally, Education's data show that the time needed to process consolidation applications has improved since the December 1, 1997, startup. The average processing time fell from about 65 days to about 54 days between December 1997 and June 1998, and the percentage of applications that were pending for 60 or more days decreased from about 6 percent to just over 1 percent between June 1998 and September 1998. Education officials cited improved processes and increased staff hired by EDS in stating that they are confident that EDS could now handle a greater volume of applications.

BACKGROUND

FDLP loan consolidation begins when a borrower sends EDS an application for a consolidation loan. The borrower lists each loan he or she wants to consolidate and the party holding or servicing the loan–the FDLP servicing center for FDLP loans and private lenders for FFELP loans. For FDLP loans, EDS obtains information on the unpaid loan balance from the FDLP servicing system. For FFELP loans, EDS sends a verification certificate to each lender to verify each loan and the amount owed. Lenders complete the verification information and return the certificates. Upon receiving this information from each of the lenders, EDS calculates the total dollar amount of the new consolidation loan and sends a promissory note to the borrower for signature. After the borrower signs and returns the note, EDS pays off each lender for the underlying FFELP loans and transmits data on the new consolidation loan to the central FDLP database, managed by Affiliated Computer Services, Incorporated/AFSA Data Corporation (ACS/AFSA), the Education contractor that services all direct loans.[4] Information from the central database is then sent to the FDLP servicing system, also managed by ACS/AFSA, for loan servicing and collection.

Shortly after EDS began operating the consolidation program and processing FDLP consolidation loans in September 1996, a backlog of unprocessed consolidation loan applications developed and grew steadily. In August 1997, when the backlog reached about 84,000 unprocessed applications (more than half of all applications that EDS had received), Education shut down the FDLP consolidation program to new applications until December 1, 1997. EDS and Education used the shutdown period to resolve the backlog of applications.[5]

In our April study, we found a number of problems in EDS' processing of consolidation applications and the transmission of data to the FDLP servicing system. FFELP lenders we spoke to said they often completed a verification certificate for a borrower, sent it to EDS, and then unexpectedly received a new

---

[4]In our April report, the FDLP loan servicer was referred to as Computer Data Systems, Incorporated/AFSA Data Corporation (CDSI/AFSA). ACS has now acquired CDSI.

[5]An application that was part of the backlog could be resolved in one of two ways: The loan consolidation could be completed, or the application could be deactivated. An application was deactivated after a specified period of time if EDS did not receive certain necessary information despite several requests or if a promissory note was sent out but not returned.

certificate from EDS to be filled in. When they completed and returned the new one, they would receive two payments for the borrower, one based on each certificate. EDS said that when it entered data from certificates into its data system, some certificates would fail certain data entry edit checks it had established. These certificates would then be set aside for manual editing, but if they were not resolved within a certain period of time, EDS' system would generate a new certificate and send it to the lender. The first certificate would later be corrected and entered into the data system, but the second would appear to be valid as well, and payment would be made for each one, resulting in duplicate payments. Lenders also received inaccurate payments because of EDS data entry errors affecting the loan balance or other loan characteristics, such as whether the loan was in default. EDS and Education officials acknowledged these problems and said they were revising their processes for applications received after December 1, 1997, to correct them.

We also found that certain differences between EDS' and ACS/AFSA's systems, such as differing criteria for valid data entry between the two systems, contributed to delays in successfully transmitting some corrections to borrower accounts in the FDLP servicing system. Borrowers were thus left with incorrect loan balance information for as long as the corrections were not successfully transmitted, sometimes for many months. EDS' system sent loan consolidation transactions, including credits for refunds made by lenders on behalf of borrowers, to the central FDLP database for entry into the FDLP servicing system.[6] According to Education officials, consolidation data were not always smoothly transmitted between EDS' system, the central FDLP database, and the FDLP servicing system–some transactions were rejected when being moved from one system to the next, and these transactions were sent to a "suspense" file. This caused an accumulation of loan accounts showing incorrect balances until the adjustments could be properly credited. In some of the examples we reviewed, adjustments that had been recorded by EDS up to 9 months earlier had yet to be successfully transmitted to the servicing system.

---

[6]For example, assume a borrower owed $10,000 but mistakenly signed an FDLP consolidation promissory note for $15,000. That borrower's account in the FDLP servicing system would show $15,000, which EDS would pay the lender for the underlying loans. When the lender refunded the $5,000 overpayment to EDS, EDS would send a $5,000 refund transaction to the FDLP servicing system. After this transaction was fully processed, the account balance would reflect the $10,000 the borrower actually owed.

LENDERS' VIEWS OF CHANGES TO THE CONSOLIDATION PROCESS

Officials from four FFELP lenders we interviewed said that EDS' processing of consolidation applications has been better since December 1, 1997, than it was before the August 1997 shutdown. These officials said that some of their primary complaints about the process–duplicate requests for information through loan verification certificates, duplicate payments, other inaccurate payments, and the length of time needed for the process–have generally improved. Three mentioned that although the process has improved, it is still too lengthy, causing inaccurate payments at times, but several also said that communications with EDS and Education have improved.

Officials from all four lenders said they receive far fewer duplicate verification certificates than they had been receiving before the August 1997 shutdown. Two lenders gave examples of duplicate certificates they had received from EDS for FDLP consolidation borrowers after the reopening, but both mentioned that the borrowers initially applied for their consolidation loans before the shutdown. In addition, lenders less frequently receive verification certificates with an incorrect address, which took time to track down and sometimes led to a second verification certificate being sent.

Less-frequent duplicate verification certificates have led to fewer duplicate payments, according to the lenders' officials. A main complaint about EDS' procedures before the shutdown was that a lender would return a second verification certificate to EDS, assuming the first had been lost or was not valid, and EDS would pay both. The lender would then need to refund the second payment. This situation is less common now, according to the lenders' officials.

While recognizing the improvements that have been made, several of the officials said that the process still takes longer than it should. One official said that only 10 percent of their borrowers have their applications processed "right away," without any followup contact with the lender. The other 90 percent generate at least one borrower's phone call to inquire about the application's status, which the lender is usually unable to address. The lender generally refers the borrower to EDS for resolution. This official, and officials from two other lenders, mentioned that payments sometimes come to them with such delays that borrowers' balances have changed or interest has not been calculated on a long enough period, sometimes resulting in inaccurate payments.

Officials from several lenders said that communications with Education and EDS are better than they were before the shutdown. One said that Education has generally been "accommodating" to their requests and said that Education's new policy on tolerating small underpayments and overpayments will further improve the process.[7] Another said that they can "easily" resolve any questions that they have.

DATA TRANSMISSION TO SERVICING SYSTEM AND STATUS OF BORROWER TRANSACTIONS

Education and EDS have changed their processes aimed at ensuring that data flow more smoothly from EDS' system to the FDLP servicing system. EDS officials said that many transactions that had been rejected during their transmission from one system to the next in 1997 were successfully transmitted during the summer of 1998. Transmissions of data from EDS to the FDLP servicing system appear to be flowing more quickly than they were when we performed our earlier work, based on a comparison of two sets of borrowers, but some transactions affecting loan balances are still taking longer to be transmitted than Education expected.

As we stated in our April 1998 report, Education was working to make transactions flow smoothly between EDS' and ACS/AFSA's systems. Education officials said that EDS and ACS/AFSA have been working since October 1997 to reduce a large number of transactions that had not been successfully transmitted from EDS to ACS/AFSA. Officials told us they were still working on certain necessary system corrections during the period of our review. For example, the system did not correctly process disbursements that were transmitted out of sequence. If a borrower's first disbursement was properly recorded, a second disbursement was rejected for some reason, and a third disbursement was properly recorded, then when EDS corrected and resubmitted the second disbursement, it would be rejected again. This time it would be rejected because the system recognized it as a second disbursement that was out of sequence and could not logically follow the third disbursement, which was already recorded in

---

[7]In July 1998, Education sent a letter to lenders saying they could keep overpayments of less than $10 and write off underpayments of less than $25. Both Education and lender officials told us this is in keeping with industry practice and will reduce the paper flow of many checks of small denomination in each direction.

the system. Education officials said that this correction has now been completed.

Education officials added that while EDS' and ACS/AFSA's computer systems detect some errors automatically, other errors become known only through borrowers' complaints. EDS now sends a letter to borrowers 45 to 60 days after consolidation, asking if they have had any problems. Some borrowers let EDS know directly, while others complain to ACS/AFSA's loan servicing center, which then has to refer the case back to Education or EDS for research if it is not simply a billing question. Certain mistakes--such as a loan recorded as an unsubsidized rather than a subsidized loan--cannot be detected by EDS' system.[5] If a borrower subsequently questions the amounts, EDS loan consolidation staff can go back to the initial application, the loan verification certificate, and the borrower's promissory notes to verify that the subsidized and unsubsidized balances are correct. They can then verify that the correct information was forwarded to the central FDLP database and the FDLP servicing system.

EDS officials added that they are making progress toward resolving transaction errors. According to EDS data, more than 13,000 data errors required correction during the course of processing direct loan consolidations between September 1996 and September 1998. At the end of June 1998, nearly 7,000 of these errors awaited correction, but in mid-September, fewer than 600 remained outstanding. Of these, fewer than 200 required action by EDS, and EDS was awaiting lender action before it could correct these errors, according to an EDS official. Furthermore, at the end of June 1998, nearly 30,000 errors generated in transmission between EDS' system and the central FDLP database remained unresolved, of which more than 10,000 required EDS action. By mid-September, about 7,000 errors were unresolved, and EDS action was required on fewer than 1,000 of them, according to the same official.

---

[5]Within both FDLP and FFELP, both subsidized and unsubsidized loans are made. For subsidized loans, the government pays interest on behalf of borrowers while borrowers are in school or in other authorized periods of deferment. For unsubsidized loans, borrowers are responsible for interest throughout the life of the loan. In an FDLP consolidation loan, any subsidized loans retain their subsidy. If, for example, half of the borrower's total loan balance was made up of subsidized loans, then half of the new FDLP consolidation loan balance is subsidized.

Our analysis of two sets of borrowers' accounts confirms that data corrections have been made and some backlogged transactions have been successfully transmitted. For borrowers in our April study, most of the transactions that had not been successfully transmitted to the servicing system as of February 1998 have since entered the servicing system. Some of the borrowers whose balances in the servicing system were higher than the amount they actually owed have since had their accounts corrected. In all, of the 11 borrowers whose refunds had not been properly credited when we completed our earlier work, 7 had the proper corrections credited to their accounts by September 1998, and their accounts showed the correct balance. An eighth borrower had all corrections transmitted except for one recent transaction.

Some of the eight borrowers whose accounts have now been corrected had large errors at the time of our earlier work. We found, for example, that one borrower had a $190,000 balance, according to the servicing system, although he actually owed only about $90,000. Some of the loans mistakenly added to his account were duplicates of his loans, and others belonged to a different borrower. One of this borrower's lenders received overpayments from EDS totaling more than $90,000 and sent refunds of this amount to EDS in May and September 1997. As of February 1998, the servicing system continued to show that the borrower owed $190,000. These refunds have since been credited, and the borrower's account in the servicing system matches EDS' record of transactions with the exception of one recent transaction. For another borrower, whose original $58,000 loan EDS had mistakenly paid off twice, FDLP servicing system records continued to show the additional $58,000 as part of her loan balance in February 1998, although EDS had received the lender's refund in May 1997. In March 1998, the refund was successfully transmitted to her account.

The three other borrowers had not had their corrections successfully transmitted as of September 1998. In one of these cases, we determined that information had reached the servicing system but had not been properly recorded. In this example, 15 refund checks were sent but two of them were not processed correctly, and the servicing system showed the borrower owed more than $19,000 more than she should. Although EDS received the refunds in May 1997, the borrower still had not been properly credited by September 1998–more than 15 months later. The two other cases that had not yet been corrected involved borrowers whose accounts were incorrectly combined with the account of another borrower during EDS' data entry process. One of these was improperly

charged for another borrower's loans, and the other had her loans improperly charged to another borrower.[9]

In the second set of 21 borrowers for which lenders provided us information, all of whom applied for their consolidation loans after December 1, 1997, and whose accounts were initially overpaid, we found fewer problems with servicing system accounts.[10] For 17 of the 21 borrowers, lender refunds made on their behalf were transmitted to the servicing system. For an 18th, the account had several refunds credited and was missing only a recent transaction, and for a 19th, a transmission error occurred, in part, because of a mistake made by the lender. The 2 others had neither the refunds nor the original disbursements, which date back to March and April 1998, successfully transmitted to their accounts by September 1998.

Of the 17 borrowers who had all their transactions transmitted, 13 had their refunds credited to their servicing system accounts within 6 weeks of the time the lender sent them. For the 4 other borrowers, transmission times ranged from 9 to 15 weeks.

TIMELINESS OF CONSOLIDATION PROCESSING AND CAPACITY FOR HANDLING INCREASED VOLUME

Education data show that since December 1, 1997, EDS has been processing consolidation applications more quickly than before the August 1997 shutdown.

---

[9]Another borrower in our earlier study had a different error. He was not one of the 11, because his total balance was correct, but the servicing system shows his entire balance as consisting of unsubsidized loans when in fact about two-thirds should be subsidized. This error had not been corrected as of September 1998. The error would become important if the borrower qualified for a deferment, for instance by going on to further education. The subsidized portion of his balance should not accumulate interest during a deferment period, but as his account stands now, the entire balance would accumulate interest charges.

[10]We asked lenders we contacted for examples of recent borrowers for whom refunds had been paid, to determine whether these borrowers' accounts showed problems similar to accounts of those who applied before the shutdown. We received data on 33 borrowers from the lenders. The lenders could not be certain that borrowers they selected were ones who first applied after December 1, 1997, and 12 of the 33 they provided were subsequently identified as preshutdown applicants.

The average processing time for completed applications has declined from 65 days, for applications EDS received in December 1997, to 54 days, for those it received in June 1998, as has the percentage of applications that have been pending for more than 60 days.[11] EDS has received more FDLP consolidation applications since July 1, 1998, than in preceding months, but Education is confident that EDS will be able to process these applications in a timely manner and believes new processing capacity can be added if necessary.

As shown in figure 1, the percentage of applications pending after 60 days has decreased in recent months, as recorded in Education's weekly reporting of these data. For example, after the December 1, 1997, reopening, EDS received about 36,000 applications through April 13, 1998. By the June 12 weekly report date–60 days later–about 27,000, or 75 percent, had been consolidated.[12] Another 7,000 applications (19 percent) had been withdrawn or deactivated, and relatively few–about 2,000, or about 6 percent–were still pending on June 12.[13] By the September 25, 1998, weekly report date, the percentage pending had fallen to just over 1 percent. For more detailed data, see enclosure I.

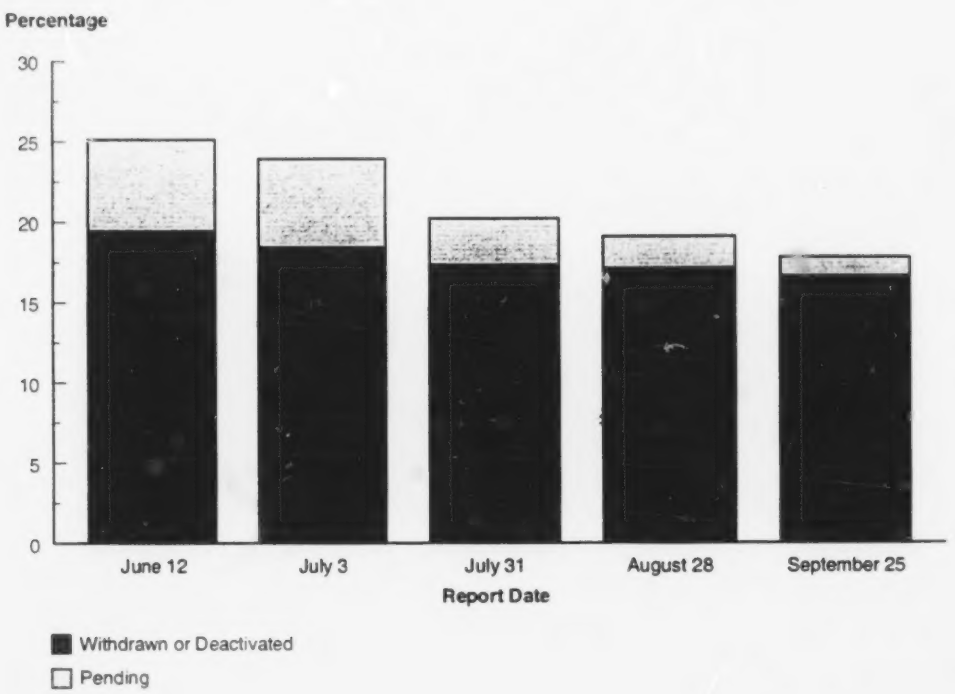
---

[11]Education's goal is to process applications within 60 to 90 days. We analyzed the status of applications after 60 days.

[12]These data exclude fast-track applications, those that include only loans held by Education's Debt Collection Service. For these applications, EDS does not have to collect data from FFELP lenders, and they can therefore be processed more quickly. About 14,000 of 107,000 consolidation applications received through September 24, 1998, were fast-track applications.

[13]Withdrawn applications are those for which the borrower has decided not to pursue the consolidation process further. Deactivated applications are those for which EDS has not received communication from the borrower for a specified period of time at certain stages of the process–for instance, if the borrower does not return a promissory note within 21 days. A deactivated application can become active again if the borrower takes new action. Applications that were deactivated and then reactivated are excluded from the data shown here, because the total time the application was deactivated is unknown in these cases.

Figure 1: Percentage of Consolidation Applications Not Consolidated Within 60 Days Declined From June 1998 to September 1998



Note: Data are for applications received 60 or more days before the respective report dates. Applications that were not in these categories–withdrawn, deactivated, or pending–were consolidated. Because of reporting changes, data from before June 1998 are not strictly comparable to these data.

Data on applications received before the August 1997 shutdown show that EDS' application processing took longer than it did in the 1998 data discussed above. Data from before the shutdown are not as detailed as are current data.

However, Education generated a report as of October 14, 1997, for applications received each month since EDS began processing consolidation applications in September 1996. Of applications EDS received through July 31, 1997–that is, at least 75 days before the report date–about 23 percent were pending on October 14, 1997. The percentage of applications then pending was much higher than the percentage pending in more recent data, even though we looked at a longer time period over which EDS could process the applications–75 days in the 1997 data instead of 60 days in the 1998 data–and EDS was not accepting any new applications because of the shutdown, which allowed it to focus on consolidating the applications it had already received. Education's report showed that less than 60 percent of these applications had been consolidated by October 14, 1997. The percentage of applications that had been withdrawn or deactivated at that time, about 18 percent, was similar to that reflected in current data, as shown in figure 1.

The volume of consolidation applications has increased since the lower interest rate went into effect on July 1, 1998. EDS received more than 11,500 new applications during July 1998–the first month the lower interest rates were in effect for FDLP consolidations–which was more than the average of about 10,500 new applications it had been receiving monthly since January. In August 1998, EDS received nearly 15,000 new applications, and September's volume exceeded 17,000. The percentage of August and September applications processed within 60 days cannot be calculated until the end of October and November–after 60 days have passed.

Education is confident that EDS can handle the ongoing increase in applications as well as potential future increases. In an August 7, 1998, letter to several members of the Congress, Education said that EDS should now be able to process 3,000 applications per week with its current staff levels and that it could increase this capacity to 4,000 per week, if necessary, by hiring additional staff. Furthermore, Education officials said that they are planning to add new capacity by contracting with a second entity, in addition to EDS, to process consolidation applications. Education is considering having this second contractor service the loans it consolidates rather than passing information to a different contractor for servicing, as in the current practice. Education is discussing proposals with entities that currently participate in the student loan industry.

CONCLUSIONS

The changes that Education and EDS made before the December 1, 1997, reopening of the FDLP consolidation program appear to be working. Lenders

said that they are more satisfied both with the process and with their communication with Education and EDS. Some data transmission problems for transactions between EDS' and ACS/AFSA's systems remain, and some borrowers' balances on the servicing system still do not reflect what they actually owe. But overall, transactions with data errors and with problems in transmission to the FDLP servicing system have been reduced, some consolidation transactions that we found had not been successfully transmitted to the FDLP servicing system at the time of our earlier work have now been successfully transmitted, and applications are generally being consolidated more quickly.

AGENCY COMMENTS

The Department of Education, in commenting on a draft of this letter, stated that the letter demonstrates the progress that EDS has made toward resolving the problems we discussed in our April report. Education also discussed several additional changes it has made, and plans to make, to the consolidation process. In addition, Education provided several technical comments, which we incorporated as appropriate. Education's written comments are included as enclosure II.

- - - - -

We are sending copies of this letter to the Secretary of Education, EDS' Program Executive for Direct Loans, appropriate congressional committees, and others who are interested. If you or your staffs have any questions or wish to discuss this letter further, please contact me or Jay Eglin, Assistant Director, at (202) 512-7014. Major contributors include James W. Spaulding.

Carlotta C. Joyner
Director, Education and
Employment Issues

Enclosures - 2

PROCESSING TIME DATA FOR CONSOLIDATION APPLICATIONS

The Department of Education has said that its goal is that consolidation applications be processed within 60 to 90 days. Tables I.1 through I.4 display the number of applications Electronic Data Systems (EDS) received by various dates and the number and percentage that had been consolidated, had been withdrawn or deactivated, and were pending 60 and 90 days later. These data are reported weekly by Education, based on EDS processing statistics. The data for each report represent a snapshot as of that date, and succeeding reports may refine some of the data presented in earlier reports.

The tables display data separately for non-fast-track applications only (tables I.1 and I.2) and for all applications–fast-track and non-fast-track combined (tables I.3 and I.4). Fast-track applications include only loans held by Education. For these applications, EDS does not have to collect data from Federal Family Education Loan Program (FFELP) lenders, and they can therefore be processed more quickly. Data for non-fast-track applications are provided to analyze processing time for "normal" applications, those that involve EDS' receiving loan data from FFELP lenders and paying them for the loans.

Applications included in each column are those received 60 or 90 days, as indicated, before the associated report date. For example, table I.1 shows that about 36,000 non-fast-track applications had been received by April 13–60 days before the June 12 report date. As of June 12, of the 36,000 applications, about 27,000 had been consolidated, 2,000 were pending, and 7,000 had been withdrawn or deactivated. All data are cumulative from December 1, 1997. Some of the 2,000 applications that were pending had been received in February or March and, thus, as of June 12 had been pending somewhat longer than 60 days.[14]

[14]All data exclude pending applications that had been previously deactivated and are now reactivated, for which the actual time in processing cannot be determined because we do not know how long the deactivation period lasted. This category includes no more than 1,100 applications for any report date.

Table I.1: Processing Time for Non-Fast-Track Applications--Applications Received 60 Days Before the Report Date

	Report date				
	June 12	July 3	July 31	Aug. 28	Sept. 25
Number of applications received at least 60 days before report date	35,829	41,675	49,045	57,035	65,527
Consolidated by report date					
Number	26,825	31,751	39,136	46,129	53,833
Percentage	74.9	76.2	79.8	80.9	82.2
Pending at least 60 days as of report date					
Number	2,056	2,275	1,423	1,152	807
Percentage	5.7	5.5	2.9	2.0	1.2
Withdrawn or deactivated as of report date					
Number	6,948	7,649	8,486	9,754	10,887
Percentage	19.4	18.4	17.3	17.1	16.6

Note: Percentages may not add up to 100 because of rounding.

Table I.2: Processing Time for Non-Fast-Track Applications–Applications Received 90 Days Before the Report Date

	Report date				
	June 12	July 3	July 31	Aug. 28	Sept. 25
Number of applications received at least 90 days before report date	28,000	33,862	41,676	49,173	56,861
Consolidated by report date					
Number	22,124	26,924	34,020	40,662	47,514
Percentage	79.0	79.5	81.6	82.7	83.6
Pending at least 90 days as of report date					
Number	654	706	398	266	133
Percentage	2.3	2.1	1.0	0.5	0.2
Withdrawn or deactivated as of report date					
Number	5,222	6,232	7,258	8,245	9,214
Percentage	18.7	18.4	17.4	16.8	16.2

Note: Percentages may not add up to 100 because of rounding.

Table I.3: Processing Time for All Applications–Applications Received 60 Days Before the Report Date

	Report date				
	June 12	July 3	July 31	Aug. 28	Sept. 25
Number of applications received at least 60 days before report date	43,178	49,584	57,800	66,906	76,798
Consolidated by report date					
Number	34,147	39,625	47,850	55,957	65,051
Percentage	79.1	79.9	82.8	83.6	84.7
Pending at least 60 days as of report date					
Number	2,061	2,285	1,423	1,152	808
Percentage	4.8	4.6	2.5	1.7	1.1
Withdrawn or deactivated as of report date					
Number	6,970	7,674	8,527	9,797	10,939
Percentage	16.1	15.5	14.8	14.6	14.2

Note: Percentages may not add up to 100 because of rounding.

Table I.4: Processing Time for All Applications–Applications Received 90 Days Before the Report Date

	Report date				
	June 12	July 3	July 31	Aug. 28	Sept. 25
Number of applications received at least 90 days before report date	34,294	41,049	49,566	57,899	66,682
Consolidated by report date					
Number	28,399	34,084	41,875	49,347	57,292
Percentage	82.8	83.0	84.5	85.2	85.9
Pending at least 90 days as of report date					
Number	654	710	398	266	133
Percentage	1.9	1.7	0.8	0.5	0.2
Withdrawn or deactivated as of report date					
Number	5,241	6,255	7,293	8,286	9,257
Percentage	15.3	15.2	14.7	14.3	13.9

Note: Percentages may not add up to 100 because of rounding.

ENCLOSURE II

AGENCY COMMENTS

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-

NOV 10 1998

Ms. Carlotta C. Joyner
Director for Education and Employment Issues
Health, Education and Human Services Division
United States General Accounting Office
Washington, D. C. 20548

Dear Ms. Joyner:

Thank you for the opportunity to review the draft report *Student Loans: Improvements in the Direct Loan Consolidation Process*. The draft report includes important information on the success of the reengineering efforts the Department and our contractor Electronic Data Systems (EDS) took to improve the direct loan consolidation process since you issued your original report in April 1998.

We are pleased that you note in your draft report that the lenders included in your follow-up work believe the consolidation process is improving and that they are receiving fewer incorrect payments and fewer duplicate requests for information. Further, lenders report having improved relationships with the Department and with EDS.

You included several key improvements in your report we believe are directly attributable to the steps EDS and ED took in order to resume taking new consolidation applications in December 1997 and the process improvement efforts we continue to make. We agree with your conclusions that the specific areas of improvement include:

- Decreasing the time frame to consolidate a loan.
- Decreasing the number of pending applications older than 60 days.
- Lenders reporting they receive fewer duplicate certificates and payments.
- Lenders reporting they receive fewer inaccurate payments.

We attribute these improvements to several initiatives we have taken. We outlined these initiatives in our response to your draft report in April 1998. Although we were confident in April that these initiatives were working, we now have additional data and experience that prove these steps were the right ones. The improvement steps EDS and ED took include:

- Forming a dedicated management team at the Department to ensure student loan consolidations receive strong Department oversight. In addition, new management information system reports were developed and continue to be refined to ensure accurate data is available to monitor and adjust processes to handle fluctuations in volumes. We are confident that EDS is managing its resources appropriately, can handle increases in consolidation volumes, and sustain the increased quality of the improved processes.

- Reengineering the loan certification process to capture better data early in the process, adding improved monitoring features, and improving relationships with loan holders by providing points of contact within the EDS certification team. As you noted in your report, loan holders reported increased communications and better relations with EDS.

- Modifying our contract with EDS to include performance measures that ensure improved products and services. Current data show that EDS continues to meet or exceed the performance standards. Recent customer service responses from borrowers indicate borrower satisfaction has dramatically improved over 20% since December 1997 . The customer service responses were collected, compiled, and analyzed by the Price Waterhouse Coopers Independent Quality Control Unit (IQCU), which performs quality control activities for the Loan Origination and Loan Consolidation processes. The customer satisfaction data was reported to the Department and EDS in the November 4, 1998 IQCU Quarterly Briefing.

- Developing systems improvements for processing electronic exchange of certification data with loan holders to decrease the time to consolidate loans and increase accuracy.

- Implementing a new tolerance policy for underpayments and overpayments which accommodates lenders by reducing the paper flow of small denomination checks and is in keeping with the Federal Family Education Loan (FFEL) program industry standards.

We believe the process improvements in loan consolidation provide borrowers with quality service and a quality product, but we see additional opportunities for improvement.

As you note in your draft report, lenders still believe the direct loan consolidation process is too lengthy, and there are interface issues between our direct loan systems that must improve. We are taking steps to reduce the time to consolidate and improve the systems interfaces between our consolidation and servicing systems. We conduct twice-weekly working meetings specifically designed to identify and fix systems interface problems that prevent borrowers from having their loans serviced properly.

ENCLOSURE II

In order to shorten the consolidation time frame and further improve service to our borrowers, we are implementing a combined consolidation application/promissory note in December 1998. The combined application/promissory note is similar to the applications FFEL consolidators use and will shorten the consolidation process by approximately ten days. In addition, we continue to work with FFEL lenders to expand the electronic exchange of information, which will reduce the manual resources FFEL lenders and EDS must devote to consolidating loans.

Also, as you note in your draft report, EDS and Affiliated Computer Services, Inc. (formerly, Computer Data Systems, Inc.) corrected the majority of the remaining interface errors in April. In order to further improve the system interfaces between the consolidation and servicing systems, the Department formed several work groups that are analyzing specific problem areas and developing corrective system changes. These work groups analyze each individual borrower who has been affected by transaction errors between the two systems and determine corrective action. This process has yielded several system changes that correct and prevent these problems.

Again, thank you for the opportunity to review and comment on this report. We remain committed to providing quality service to our borrowers and resolving issues with our partners in student loan management.

Sincerely,

Diane E. Rogers
Acting Chief Operating Officer
Office of Student Financial Assistance Programs

BEST COPY AVAILABLE

(104942)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. VISA and MasterCard credit cards are accepted, also. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000 or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web Home Page at:

http://www.gao.gov

United States
General Accounting Office
Washington, D.C. 20548-0001

Bulk Rate
Postage & Fees Paid
GAO
Permit No. G100

Official Business
Penalty for Private Use $300

Address Correction Requested